

February 21, 2006

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Street, 2nd Floor
Boston, MA 02110

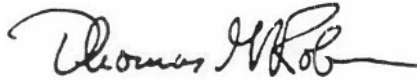
Re: Docket No. D.T.E. 06-5; Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid

Dear Secretary Cottrell:

On behalf of Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid ("Company"), I am providing the Company's Reply Brief in the above-captioned matter.

Thank you very much for your attention to this matter.

Very truly yours,



Thomas G. Robinson

cc: Service List

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Massachusetts Electric Company and)
Nantucket Electric Company d/b/a National Grid)

D.T.E. 06-5

REPLY BRIEF BY NATIONAL GRID

I. INTRODUCTION

This Brief responds to the Initial Brief of the Attorney General, filed on February 19, 2006 in the above case. As indicated in our Initial Brief, this case focuses on a single issue—whether to include Consolidated Edison (“Con Ed”) in the calculation of the Regional Index adjustment that becomes effective on March 1, 2006. The issue stems from Con Ed’s decision to rebundle the transmission and distribution functions in its delivery tariffs in a rate settlement that became effective on April 1, 2005.

In National Grid’s view, the inclusion of Con Ed is consistent with the Rate Plan approved by the Department in Docket D.T.E. 99-47, and necessary to fairly incorporate the economic pressures and price changes that faced distribution utilities in the Northeast from July 1, 2004 to July 1, 2005 (National Grid Brief, pp. 4-6). Moreover, we believe that the Con Ed tariff can be reasonably allocated between the transmission and distribution functions to reflect an array of distribution services comparable to those included in the Company’s unbundled distribution rates (National Grid Brief, pp. 6-7). The Attorney General disagrees on both points.

II. ARGUMENT

1. The Inclusion of Con Ed in the Regional Index Adjustment Is Consistent with the Rate Plan.

In our Initial Brief, we explained that the Rate Plan Settlement simply did not contemplate that distribution utilities in the Northeast would rebundle delivery rates after unbundling. As explained by Theresa Burns (Tr. 2/14, pp. 45-46):

Q. Could you tell me, was the settlement silent on how to address the unbundling—was the settlement silent on the condition of a utility becoming bundled after it was unbundled in the index group?

A. Not only was the settlement and is the settlement silent as to that. I believe, and the Company believes, that the settlement never contemplated that occurring.

Thus, National Grid’s initial brief (p. 5) focused on whether the continued inclusion of Con Ed in the index was consistent with the intent of the agreement and necessary to fulfill its purposes. Specifically, we explained that the Settlement language in Section I.C.3.b—the “Regional Index shall be normalized for new entrants”—focused only on the addition of new utilities to the comparator group, and not on the elimination of those already in the group. In addition, we noted (Initial Brief, p. 5, note 4) that the similar language in Attachment 8 focused on new entrants but also contemplated the elimination of companies that “occur as the result of rate consolidations due to mergers.” In that situation, we explained that the consolidation produced no loss of information in the analysis. Rather, the kilowatt-hour deliveries in the pre-merged companies were simply included in the consolidated rate of the merged company.

The Attorney General agrees that normalization to eliminate companies from the Regional Index is “not explicitly stated in the Methodology” (AG Brief, p.6, note 6), but nevertheless argues that the normalization concept also applies when a company is eliminated from the Regional Index. Specifically, the Attorney General cites principle 4 that is used in the calculation of the Regional Index. The principle states that:

A Regional Utility included in the Regional Index will be an investor-owned electric utility in the six New England States, New York, New Jersey or Pennsylvania with tariffs containing distribution rates and charges that reflect an array of unbundled distribution services comparable to the unbundled distribution services collected through the electric distribution rates of electric utilities in Massachusetts.

The Company and the Attorney General agree that Con Ed was properly included in the Regional Index at the outset and in the initial calibration, because Con Ed contained “an array of unbundled distribution services comparable to the unbundled distribution services collected through the electric distribution rates of electric utilities in Massachusetts” at those times. The question is whether the rebundling of Con Ed’s rates in April 2005 requires the elimination of that company from the Regional Index after that date. Paragraph 4, as is all other language in the Settlement, is silent on that point.

Nevertheless, the paragraph illustrates the fundamental distinction between companies that have been included in the Regional Index and rebundled and those that have never unbundled in the first place. In the latter case, the utility has never separated the distribution function from generation and transmission, and it is impossible to develop the “distribution rates and charges that reflect an array of unbundled distribution services comparable” to those in Massachusetts. The data necessary to complete the analysis is simply not available. However, once a utility actually unbundles its rates in the first place, it is relatively strait-forward to develop a reasonable allocation of the rebundled tariff between the functions included in the new tariffs and the functions included in the prior versions.

Mr. McCabe provided that analysis in this case. Mr. McCabe’s allocation is based on the utility’s own functionalization that is reflected in the prior unbundled tariffs of the same company. Thus, the continuation of the allocation between the transmission

and distribution functions requires no independent analysis of Con Ed's allocated cost of service; it merely applies the results of the allocated cost of service used in the prior case to the rebundled prices in the new tariffs. As we explained in our Initial Brief (pp. 6-7), that approach produces a reasonable allocation of costs between the transmission and distribution functions. It produces the "distribution rates and charges that reflect an array of unbundled distribution services comparable to the unbundled distribution services collected through the electric distribution rates of electric utilities in Massachusetts" for Con Ed that is required under Principle 4 of Attachment 8. The continued inclusion of Con Ed in the analysis is necessary if the Regional Index adjustment is to provide a reasonable indication of price changes and economic pressures facing the distribution companies in the Northeast, which the Settlement was designed to produce.

2. The Company's Allocation of Con Ed's Rebundled Rate between Transmission and Distribution Functions Is Reasonable.

As explained in our Initial Brief, Ms. Smith, the Attorney General's expert in this case, provided no factual basis for disagreeing with the allocation between transmission and distribution costs that was performed by Mr. McCabe. Rather, she summarily concluded that (Tr. 2/14, p. 72): "I don't think I'd be comfortable with any allocation methodology." The Attorney General provides no further support for this summary rejection in his Initial Brief. Rather, the Attorney General simply mis-labels Mr. McCabe's allocation between transmission and distribution functions as an "artificial 'normalization' of Con Ed's distribution rates" (AG Brief, p.5). Mr. McCabe is not "normalizing" Con Ed into the Regional Index. Con Ed is already in the Regional Index calculation. He is simply allocating between transmission and distribution costs to keep Con Ed in the Regional Index.

As explained above, this calculation is strait-forward. It is based on the transmission and distribution cost allocations that were reflected in Con Ed's rates in the initial calibration. It is the Attorney General that seeks to normalize Con Ed out of the Regional Index, based on a summary conclusion without factual support. The Attorney General recognizes that the "normalization" is not required by the Settlement's language. Note 6 of the Attorney General's brief, provides (emphasis supplied): "Although not explicitly stated in the Methodology, the normalization concept also applies when a company is eliminated from the Regional Index . . ."

The normalization should not be required. As we have explained, at the time of the Settlement no one expected companies to rebundle their rates. However, this lack of expectation does not lead to the automatic conclusion that the Attorney General attempts to draw. Rather, the Department should maintain the companies in the Regional Index and allow allocations of the functions that are rebundled in those rates, when reasonable information is available and the allocation produces prices for distribution services that are comparable to the unbundled distribution services reflected in the distribution rates of Massachusetts distribution companies. In this case, this standard is met; the portion of the Con Ed delivery rates that is allocable to the distribution function should continue to be included in the Regional Index.

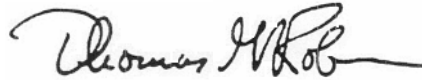
III. CONCLUSION

For the reasons stated here and in our initial brief, the Department should include Con Ed in the Regional Index Calculation and allow the Company to implement the distribution rate adjustment calculated by Mr. McCabe, and incorporated in the prices designed by Ms. Burns and included in Exhibit MEC-1 at pages 110-14.

Respectfully submitted,

NATIONAL GRID

By its Attorneys,

A handwritten signature in black ink, appearing to read "Thomas G. Robinson", with a long horizontal flourish extending to the right.

Thomas G. Robinson
Amy G. Rabinowitz
25 Research Drive
Westborough, Massachusetts 01582

Dated: February 21, 2006

CERTIFICATE OF SERVICE

I hereby certify that on February 21, 2006 I delivered a copy of the Reply Brief of Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid to the Service List in D.T.E. 06-5 by electronic mail and messenger.

Mary E. Avery

Dated: February 21, 2006